

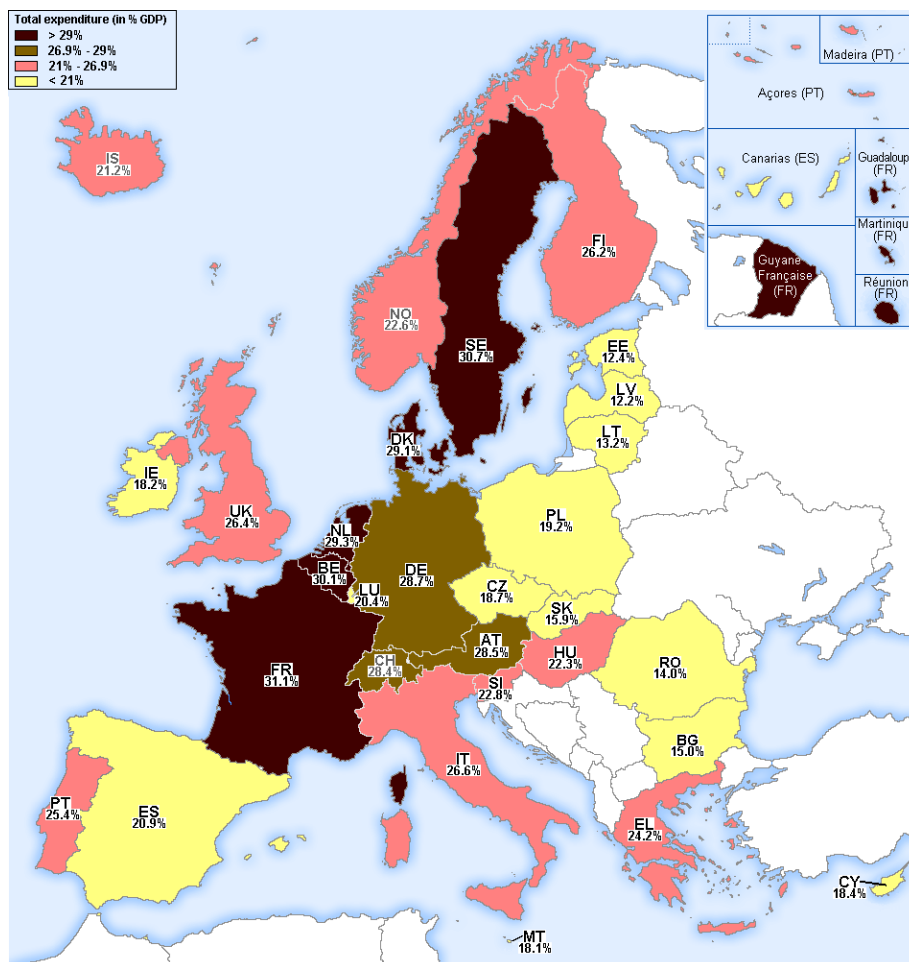
## In 2006, gross expenditure on social protection accounted for 26.9% of GDP in the EU-27

The countries with the highest ratios of expenditure as percentage of GDP spent more than twice as much as the three countries with the lowest ratios.

Social protection benefits are the largest component of total expenditure and, between them, old-age and survivors' benefits predominate (46.2% of total benefits in EU-27).

Different countries have markedly different systems for financing social protection, depending on whether they favour social security contributions (58.9% of total receipts at EU-27 level in 2006) or general government funding (37.6% for EU-27).

Figure 1: Total expenditure on social protection as %GDP in EU, 2006



Source: Eurostat

## 26.9% of GDP was spent on social protection in 2006

In 2006, gross average expenditure on social protection (see methodological notes) accounted for 26.9% of GDP in the EU-27 countries and 27.0% in EU-25 (see Table 1).

The countries with the highest ratios spent (in relation to GDP) more than twice as much as the three countries with the lowest ratios, namely the Baltic countries.

In 2006, the EU-27 countries with average or above-average ratios (see figure 1) represented 39.5% of the EU population. Out of them the group with more than 29% (France, Sweden, Belgium, the Netherlands and Denmark) accounted for 21.2% of all EU inhabitants.

Those spending between 21% and 26.9% of their GDP on social protection (Italy, United Kingdom, Finland, Portugal, Greece, Slovenia and Hungary) accounted for 32.1%. Countries that spent less than 21% of their GDP on social protection (Spain, Luxembourg, Poland, Czech Republic, Cyprus, Ireland, Malta, Slovakia, Bulgaria, Romania, Lithuania, Estonia and Latvia) represented only 28.4% of the EU population. Iceland, Norway and Switzerland are not included in these calculations.

## There is a big difference between countries in terms of their per capita expenditure on social protection (in PPS\*)

If social protection expenditure is expressed in terms of per capita PPS (purchasing power standards), the differences between countries are more pronounced (see Figure 2).

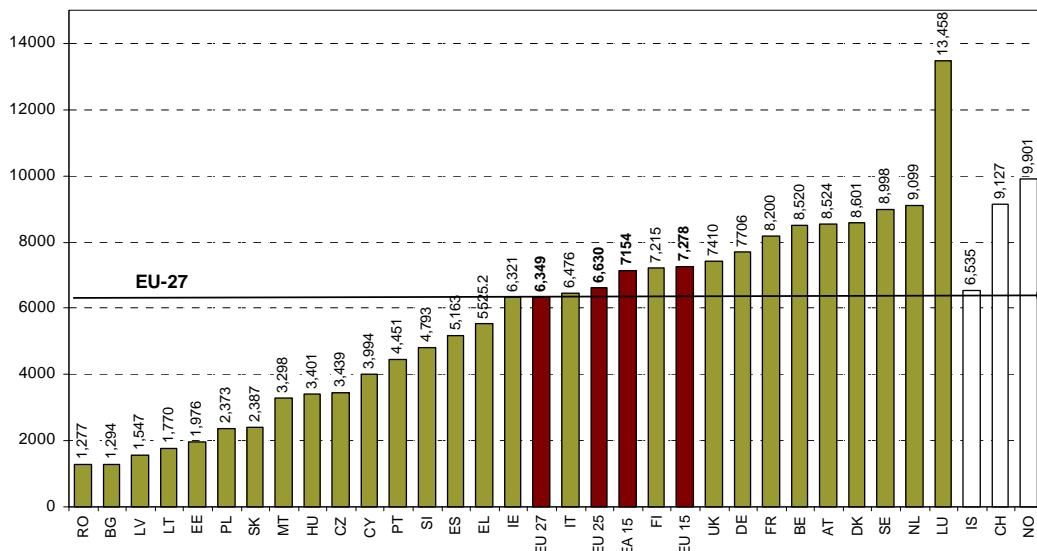
Within the EU-27, Luxembourg<sup>1</sup> had the highest expenditure in 2006 (13 458 PPS per capita), followed by the Netherlands and Sweden (with around 9 000 PPS per capita). The average value in these three countries is between 5 and 8 times higher than in the five EU countries with the lowest expenditure, i.e. Romania,

Bulgaria, Latvia Lithuania and Estonia (with values between 1 277 and 1 976 PPS per capita).

Of the countries outside the EU-27, expenditure is highest in Norway (9 901 PPS), with only Luxembourg being higher.

The disparities between countries are partly related to differing levels of wealth, but they also reflect differences in social protection systems, demographic trends, unemployment rates and other social, institutional and economic factors.

Figure 2: Expenditure on social protection in PPS\* per capita, 2006



Source: Eurostat

\* Purchasing power standards (PPS): unit independent of any national currency that removes the distortions due to price level differences. PPS values are derived from purchasing power parities (PPPs), which are obtained as weighted averages of relative price ratios in respect of a homogeneous basket of goods and services, comparable and representative for each Member State.

<sup>1</sup> Luxembourg is a special case in that a considerable proportion of benefits are paid to people living outside the country (primarily expenditure on health care, pensions and family benefits). If this particular feature is left out of the calculation, expenditure falls to approximately 11 008 PPS per capita.

## The level of expenditure per person (expressed in PPS) varies markedly between countries that have a low-to-medium level of expenditure as percentage of GDP

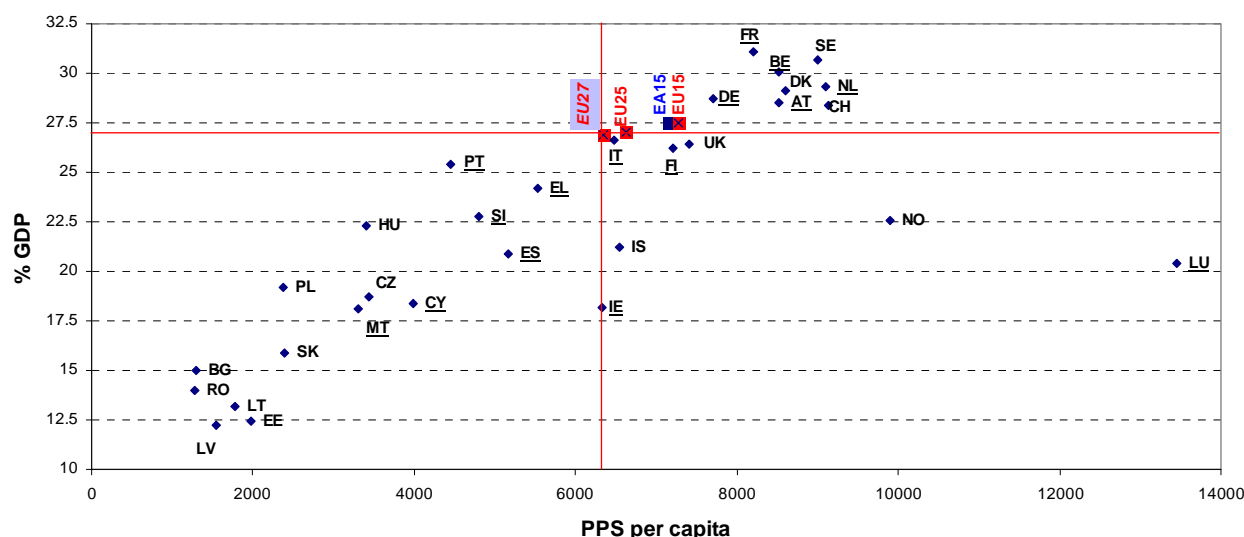
There is a positive correlation in general between the expenditure on social protection expressed as a percentage of GDP and in PPS per capita (see figure 3).

This is especially true for the group of countries (Latvia, Estonia, Lithuania, Romania, Bulgaria and Slovakia) with the lowest levels of GDP aimed to social protection (in the graph the countries below the level of 17.5%) and for the group (Switzerland, Austria, Germany, Denmark, Netherlands, Belgium, Sweden and France) with the highest levels (in the graph the countries above the line at 26.9%).

Nevertheless, the level of per person expenditure (expressed in PPS) varied considerably for countries that tend to have a low-to-medium level of expenditure as a

percentage of GDP directed to social protection (between 17.5% and 26.9%, the value for EU-27). In such cases, even though countries have a similar level of expenditure in terms of GDP, their levels of per capita expenditure (expressed in PPS) differ markedly (horizontal reading of the figure). This is the case of the following groups: 1. Poland, Malta, Czech Republic, Cyprus and Ireland, 2. Spain, Iceland and Luxembourg, and 3. Hungary, Slovenia and Norway. In these groups high dispersion in per capita expenditure should be interpreted in the light of the different combinations of levels of expenditure on social protection, levels of GDP and population.

**Figure 3: Expenditure on social protection as %GDP and PPS\* per capita, 2006**

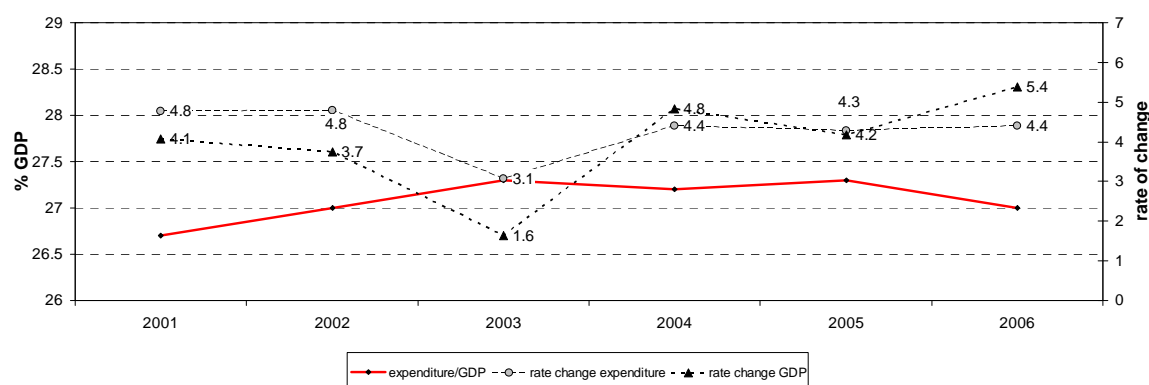


Note: Underlined countries belong to EA 15

Source: Eurostat

## In 2006 social protection expenditure as a percentage of GDP decreased for the first time since 2003

**Figure 4: Expenditure as % GDP and rates of change in expenditure and GDP, EU25**



Note: In this graph the rates of change are calculated out of data on expenditure expressed in Euros

Source: Eurostat

**Table 1: Expenditure on social protection (as % of GDP)**

	2000	2001	2002	2003	2004	2005	2006
EU 27	:	:	:	:	:	27.1	26.9
EU 25	26.5	26.7	27	27.3	27.2	27.3	27
EU 15	26.8	27	27.3	27.7	27.6	27.7	27.5
EA 15	26.7	26.8	27.4	27.8	27.7	27.8	27.5
BE	26.5	27.3	28	29.1	29.3	29.7	30.1
BG	:	:	:	:	:	16	15
CZ	19.5	19.4	20.2	20.2	19.3	19.1	18.7
DK	28.9	29.2	29.7	30.9	30.7	30.2	29.1
DE	29.3	29.4	30.1	30.4	29.8	29.7	28.7
EE	14	13.1	12.7	12.6	13	12.7	12.4
IE	13.9	14.9	17.5	17.9	18.2	18.2	18.2
EL	23.5	24.3	24	23.6	23.5	24.3	24.2
ES	20.3	20	20.4	20.6	20.7	21.1	20.9
FR	29.5	29.6	30.4	30.9	31.3	31.4	31.1
IT	24.7	24.9	25.3	25.8	26	26.3	26.6
CY	14.8	14.9	16.3	18.4	18.1	18.4	18.4
LV	15.3	14.3	13.9	13.8	12.9	12.4	12.2
LT	15.8	14.7	14	13.5	13.3	13.1	13.2
LU	19.6	20.9	21.6	22.1	22.2	21.7	20.4
HU	19.3	19.3	20.4	21.1	20.8	21.9	22.3
MT	16.9	17.8	17.8	18.2	18.6	18.4	18.1
NL	26.4	26.5	27.6	28.3	28.3	27.9	29.3
AT	28.4	28.8	29.2	29.7	29.3	28.8	28.5
PL	19.7	21	21.1	21	20.1	19.7	19.2
PT	21.7	22.7	23.7	24.1	24.7	25.4	25.4
RO	13.2	13.2	13.4	12.6	15.1	14.2	14
SI	24.2	24.5	24.4	23.7	23.4	23	22.8
SK	19.4	19	19.1	18.2	17.2	16.7	15.9
FI	25.1	24.9	25.6	26.5	26.6	26.7	26.2
SE	30.1	30.8	31.6	32.5	32	31.5	30.7
UK	26.4	26.8	25.7	25.7	25.9	26.3	26.4
IS	19.2	19.4	21.2	23	22.7	21.7	21.2
NO	24.4	25.4	26	27.2	25.9	23.8	22.6
CH	26.9	27.6	28.5	29.1	29.3	29.3	28.4

Source: Eurostat-ESSPROS

After the 2001-2002 peak (2.7%), the growth rate in per capita expenditure at constant prices remained stable over the period 2003-2006 (1.6%)

**Table 2: Expenditure on social protection per capita at constant prices (annual rate of growth)**

	2000-2001	2002-2001	2003-2002	2004-2003	2005-2004	2006-2005	Annual average of growth for 2000-2006
EU 27	:	:	:	:	:	1.6	:
EU 25	2.5	2.7	2.4	1.6	1.6	1.6	1.9
EU 15	2.4	2.6	2.3	1.6	1.5	1.5	1.8
EA 15	2.0	3.2	1.7	1.0	1.1	1.2	1.5
BE	3.2	4.3	4.6	3.0	2.0	3.2	3.4
BG	:	:	:	:	:	2.4	:
CZ	3.4	7.7	5.1	1.1	4.0	3.2	4.1
DK	1.8	2.3	4.5	2.6	1.3	-0.2	2.0
DE	0.9	2.2	0.7	-1.4	-0.2	-1.1	0.2
EE	0.3	5.8	10.7	13.2	8.1	11.3	8.1
IE	12.6	22.4	4.1	4.6	4.8	4.8	8.7
EL	8.0	2.6	3.8	4.4	5.6	3.6	4.6
ES	1.8	4.4	3.8	2.3	4.6	2.0	3.2
FR	1.8	4.4	2.2	2.7	1.8	1.1	2.3
IT	3.1	1.9	1.5	1.3	1.0	1.4	1.7
CY	4.9	8.6	14.2	1.7	3.2	2.7	5.8
LV	1.3	5.8	7.2	2.5	7.9	14.5	6.5
LT	-2.7	2.6	6.8	8.9	12.5	12.2	6.6
LU	5.9	8.2	6.7	3.1	2.9	1.7	4.7
HU	4.3	14.8	10.1	2.9	8.3	6.4	7.7
MT	2.6	3.7	3.2	1.6	2.0	1.6	2.4
NL	2.2	4.4	2.2	1.9	0.4	7.9	3.1
AT	1.6	3.1	1.5	0.5	0.2	1.5	1.4
PL	8.2	1.3	3.3	1.8	2.3	4.0	3.5
PT	6.3	5.0	0.4	3.5	3.1	0.6	3.1
RO	8.0	10.6	6.6	31.3	3.2	12.2	11.6
SI	4.8	3.3	0.2	2.9	2.1	3.9	2.9
SK	0.7	6.2	-1.3	-1.7	2.8	1.6	1.4
FI	2.2	3.5	5.0	3.4	2.6	2.3	3.2
SE	3.0	4.6	4.9	1.4	1.0	1.7	2.8
UK	3.9	-1.0	3.7	3.9	2.8	2.6	2.6
IS	4.4	9.4	9.3	4.7	2.1	1.2	5.1
NO	5.3	0.1	5.0	2.7	1.0	2.2	2.7
CH	3.2	2.4	1.9	2.2	1.4	0.2	1.9

Source: Eurostat

Note: See methodological notes for details on the calculations

In EU-25 and EU-15, as well as in EA-15, expenditure on social protection as a percentage of GDP rose continuously between 2000 and 2003 (see Table 1).

Since 2003 the ratio has remained fairly stable; it contracted significantly in 2006, but the level still remained above that recorded in 2000. As illustrated in figure 4 for EU-25, this most recent contraction is the result of significantly faster growth in GDP than in the level of expenditure on social protection. Between 2002 and 2006, expenditure on social protection as a percentage of GDP in the EU-25 was about 0.4 - 0.5 percentage points lower than in the euro zone (EA-15), since EU-25 includes a number of non-euro countries with low values for the ratio. In most cases these are countries that have continued to show strong GDP growth since 2000 (i.e. Estonia, Latvia, Lithuania, and, to a lesser extent, Slovakia); for most of them the share of social protection expenditure in GDP during these six years has therefore generally decreased.

Between countries with strong GDP growth, Romania experienced levels of expenditure on social protection growing faster than GDP.

In EU-25, per capita social protection expenditure at constant prices has increased since 2000 by an average of 1.9% per annum (see Table 2). In EU-15 (1.8%) and EA-15 (1.5%), the average calculated over the same period (2000-2006) was less than for EU-25.

Within the period under review, per capita expenditure (at constant prices) on social protection in the EU increased between 2001 and 2002 by the highest year-on-year rate, i.e. 2.7% at EU-25 level; the level was lower for EU-15 (2.6%) and higher for EA-15 (3.2%); 2002 was the only year in which countries outside the euro-zone raised the level of per capita benefits by more than in the euro-zone.

After the strong decrease in 2004, annual rates of growth remained fairly stable for all aggregates.

The trends shown in Table 2 can be explained by a combination of factors, chiefly adjustments to social benefits and legal changes in the social protection systems. Other possible factors to explain these trends include the quality of the 2006 preliminary data.

The specific annual averages of countries are affected by the year-on-year rates, according to different time patterns.

On the one hand, the particularly marked increase recorded between 2001 and 2002 in Ireland<sup>2</sup> (22.4%) and Hungary<sup>3</sup> (14.8%) explained the high average of these countries, namely 8.7% and 7.7% respectively. In Cyprus<sup>4</sup> the 2002-2003 rate (14.2%) showed the most significant increase, pushing up the average (5.8%). In Estonia<sup>5</sup> and Romania<sup>6</sup> there were remarkably positive high rates between 2003 and 2004 and between 2005 and 2006 that helped to rank these countries among those with the highest averages (8.1% and 11.6%, respectively). In Latvia<sup>7</sup> and Lithuania<sup>8</sup> it is mainly in

the last few years that the average rate (6.5% and 6.6%, respectively) has been given a positive boost.

A more uniform pattern across the whole period under review shows two other countries increasing their per capita expenditure, but to a lesser extent: Austria (1.4%) and Italy (1.7%).

On the other hand, the negative rates recorded beginning in 2004 in Germany, and between 2003 and 2005 in Slovakia<sup>9</sup> reduced the averages of these countries to low levels: 0.2% and 1.4% per year respectively.

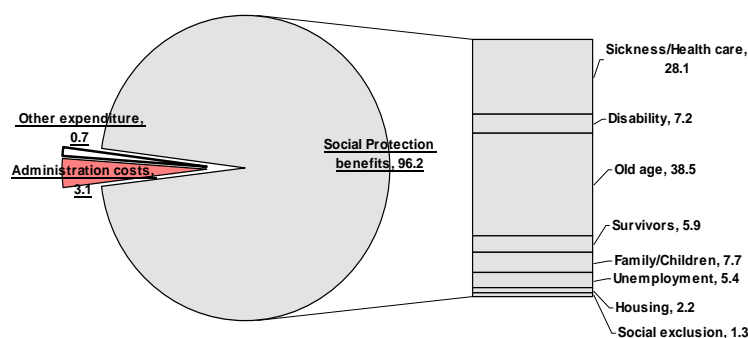
## Social protection benefits in EU-27 are the major component (96.2%) of total expenditure

The structure of expenditure on social protection in 2006, for EU-27 is presented in Figure 5, showing the relative importance of each of its components: social benefits (and between them the weighting of each of the eight ESSPROS functions), administration costs and other expenditure. Social protection expenditure on benefits goes to areas that either are not particularly affected by the economic situation (such as health

benefits and pensions) or are in fact counter-cyclical (unemployment or social exclusion).

Social Protection benefits are by far the largest component of social Protection expenditure, accounting to a total of more than 96%.

Figure 5: Structure of social protection expenditure in EU27, 2006



Source: Eurostat

## Old-age and survivors' benefits accounted for the major share of total benefits in 2006

In EU-27 in 2006 **old-age and survivors'** benefits accounted for the largest proportion of social protection benefits: 46.2% of total benefits (11.9% of GDP) (see Table 3).

These benefits were particularly large in Poland with a

share of 61.2% of total benefits; this figure was, for the first year, higher than that of Italy<sup>10</sup> (60.5% of total benefits), even though Italy keeps spending more in terms of GDP (15.5%) and was also the country with the highest percentage of population aged 60 or over (an

<sup>2</sup> The high 2001-2002 index depends on the fact that data for private occupational schemes (providing old age and survivors' pensions) are available only starting from 2002. See also comments to table 4, benefits under old-age/survivors', sickness, disability and family functions.

<sup>3</sup> See also comments to table 4, benefits under old-age/survivors' functions.

<sup>4</sup> See also comments to table 4, benefits under old age, disability and family functions.

<sup>5</sup> See also comments to table 4, under disability and family functions.

<sup>6</sup> The big increase in the annual rate of growth observed in 2004 as compared to 2003 can be explained by three main factors: changes in the legislation according to which new social benefits came into force, increasing the level of social protection expenditures for some social benefits and by enlarging the coverage of the social protection system according to the ESSPROS methodology (starting from 2002 a new ESSPROS scheme providing income support was introduced). See also comments to table 4, benefits under old-age/survivors', sickness, family and social exclusion functions.

<sup>7</sup> See also comments to table 4, benefits under sickness function.

<sup>8</sup> See also comments to table 4, benefits under disability function.

<sup>9</sup> The reduction involves in both countries expenditure on benefits under many functions, see comments to table 4.

<sup>10</sup> In Italy, such benefits also include severance allowances (TFR - trattamento di fine rapporto), which partly come under unemployment.

average value of 25.1% in 2006 compared with 21.8% in EU-27). Other countries that were significantly above the European average were Bulgaria (52.9%), Malta (52.8%) and Greece (51.3%). Bulgaria and Greece also had a high proportion of older people (around 23%).

In Ireland, by contrast, old-age and survivors' benefits accounted for around 27.4% of total benefits (4.6% of GDP). This is partly due to the fact that the Irish population is the "youngest" in Europe: in 2006, 27.7% of the Irish population were under 20 years of age (compared with 22.2% in the EU-27), and barely 15.3% were over 60.

The significant weight of young people in the structure of the Irish population shifts the balance between functions in that country in favour of **sickness/health care** (41.1% of total benefits). This function, on average, represents the second most important function at EU

level, with a share of 29.2% of all benefits (7.5% of GDP). In the Czech Republic and Romania, more than one third of expenditure on benefits went on sickness/health care. By contrast, in Denmark and Poland, expenditure on health benefits accounted for under 22% of the total benefits. It stood at less than 4% of GDP in Bulgaria, Estonia, Latvia and Poland.

In EU-27, the third function in terms of the share of total benefits was **family and children** (8.0% of all benefits and 2.1% of GDP in EU-27); the level in Luxembourg, Ireland, Denmark, Hungary and Estonia was equivalent to 12% or more of total benefits. Outside EU, the same was true for Iceland and Norway. On the other hand, in Poland and Italy - the countries with the highest incidence of old-age survivors' benefits - these benefits added up to less than 5% of total social benefits.

**Table 3: Social benefits by function group in 2006 as % of total social benefits (TSB) and as % of GDP**

	Old-age and survivors		Sickness/Health care		Disability		Family/children		Unemployment		Housing and social exclusion	
	% of TSB	% of GDP	% of TSB	% of GDP	% of TSB	% of GDP	% of TSB	% of GDP	% of TSB	% of GDP	% of TSB	% of GDP
EU 27	46.2	11.9	29.2	7.5	7.5	1.9	8.0	2.1	5.6	1.4	3.6	0.9
EU 25	46.2	12.0	29.2	7.6	7.5	1.9	8.0	2.1	5.6	1.5	3.6	0.9
EU 15	45.9	12.1	29.3	7.7	7.4	2.0	8.0	2.1	5.7	1.5	3.6	1.0
EA 15	46.7	12.3	29.1	7.7	6.6	1.7	8.2	2.2	6.4	1.7	3.0	0.8
BE	47	13.5	25.7	7.4	6.4	1.8	7.1	2.0	11.9	3.4	2.0	0.6
BG	52.9	7.7	26.0	3.8	9.1	1.3	7.4	1.1	2.2	0.3	2.5	0.4
CZ	43.1	7.8	34.4	6.2	8.6	1.5	7.6	1.4	3.2	0.6	3.1	0.6
DK	37.9	10.7	21.6	6.1	14.9	4.2	13.1	3.7	7.2	2.0	5.3	1.5
DE	44.3	12.2	29.1	8.0	6.2	1.7	11.1	3.1	6.3	1.7	3.0	0.8
EE	45.2	5.5	31.2	3.8	9.5	1.2	12.1	1.5	0.9	0.1	1.0	0.1
IE	27.4	4.6	41.1	7.0	5.4	0.9	14.7	2.5	7.6	1.3	3.8	0.6
EL	51.3	12.1	28.7	6.8	4.7	1.1	6.2	1.5	4.6	1.1	4.5	1.1
ES	41.3	8.4	31.2	6.4	7.3	1.5	5.7	1.2	12.5	2.6	2.0	0.4
FR	44.3	12.9	29.9	8.7	6.1	1.8	8.6	2.5	6.9	2.0	4.3	1.2
IT	60.5	15.5	26.8	6.9	5.9	1.5	4.5	1.2	2.0	0.5	0.3	0.1
CY	46.1	8.3	25.7	4.6	3.9	0.7	10.8	1.9	6.1	1.1	7.4	1.3
LV	48.3	5.7	29.1	3.5	7.3	0.9	10.2	1.2	3.7	0.4	1.4	0.2
LT	44.8	5.7	32.1	4.1	10.7	1.4	9.0	1.1	1.9	0.2	1.6	0.2
LU	36.7	7.3	25.4	5.1	13.2	2.6	16.9	3.4	4.9	1.0	2.9	0.6
HU	42.2	9.2	29.0	6.3	9.6	2.1	13.0	2.8	3.1	0.7	3.1	0.7
MT	52.8	9.5	28.4	5.1	6.3	1.1	6.3	1.1	3.4	0.6	2.8	0.5
NL	41.4	11.4	31.8	8.7	8.5	2.3	5.8	1.6	5.0	1.4	7.5	2.0
AT	48.6	13.4	25.5	7.1	8.2	2.3	10.4	2.9	5.8	1.6	1.5	0.4
PL	61.2	11.5	20.4	3.8	9.3	1.7	4.4	0.8	3.0	0.6	1.8	0.3
PT*	49.1	11.7	29.2	6.9	10.0	2.4	5.1	1.2	5.5	1.3	1.2	0.3
RO	45	6.2	34.8	4.8	7.4	1.0	8.9	1.2	2.7	0.4	1.2	0.2
SI	45.4	10.1	32.1	7.1	8.5	1.9	8.6	1.9	3.0	0.7	2.5	0.6
SK	45.3	6.9	31.0	4.7	8.7	1.3	7.8	1.2	3.5	0.5	3.6	0.6
FI	37.8	9.6	26.2	6.6	12.7	3.2	11.6	2.9	8.5	2.2	3.2	0.8
SE	40.2	12.1	26.0	7.8	14.9	4.5	9.8	2.9	5.5	1.6	3.6	1.1
UK	44.7	11.6	31.8	8.2	8.7	2.2	6.1	1.6	2.4	0.6	6.3	1.6
IS	30.6	6.4	34.8	7.3	15.6	3.3	14.9	3.1	1.4	0.3	2.8	0.6
NO	31	6.9	32.6	7.2	18.8	4.2	12.4	2.7	1.8	0.4	3.4	0.7
CH	48.9	12.8	26.4	6.9	12.5	3.3	4.9	1.3	3.8	1.0	3.5	0.9

Source: Eurostat

Luxembourg<sup>11</sup> and Denmark stood out, not only for actions within the family/children function, but also for those classified under **disability**. These two countries - together with Sweden - achieved levels of more than 13% of their total benefits, well above the European average (7.5% of total benefits in EU-27); Finland and Lithuania had more than 10% of their

benefits in this function. The non-EU country spending most on disability benefits was Norway, at close to 19% of all benefits. In Cyprus, Greece, Ireland and Italy, on the other hand, the proportion was under 6%. There are major differences between Member States as regards the proportion of **unemployment** benefits: while the average for the

<sup>11</sup> This function includes also "dependence insurance" benefits. According to the ESSPROS Manual, a part of these benefits should be recorded under old-age benefits but the breakdown is not available.

EU-27 was 5.6% of total benefits (1.4% of GDP), the share in Spain and Belgium, for example, was over 11%. By contrast, in Estonia, Lithuania, Italy, Bulgaria, the United Kingdom and Romania, and,

outside the EU-27, in Iceland and Norway, unemployment benefits accounted for less than 3% of expenditure on social benefits.

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## Significant overall increase in housing and social exclusion

The changes in time observed across the different functions (see Table 4) are the result of changing needs, fluctuations in the economy, demographic trends and changes to social protection legislation.

Between 2000 and 2006, social benefits developed at differing speeds for the different functions. Taking all benefits together, the growth over this period averaged 2.6% per annum in EU-25.

However, this average increase masked a wide variety of situations, with Germany (0.2%) and Slovakia (1.3%) almost stable at the bottom of the ranking, and Romania and Ireland at the other extreme with an increase of over 10%. There were also significant increases in total benefits in countries such as Estonia, Cyprus, Hungary, Luxembourg, Lithuania and Latvia, whereas the increases in Austria, Italy and Denmark were slightly below the average.

The overall changes in each country were the result of the different rates of change for each function.

In the EU-25, looking at individual social protection functions, the average annual increase ranged from 0.9% for unemployment to 4.1% for housing and social exclusion together.

Between 2000 and 2006, expenditure at constant prices on **old-age and survivors'** benefits rose by an annual average of 2.3% in the EU-25. The percentage of the population aged 60 or over in the EU-25 rose from 21.0% in January 2000 to 22.0% in January 2006. The average increase in old-age and survivors' benefits for the EU-25 was mainly due to the changes in the principal countries that make up the group: Germany, France, the United Kingdom and Italy together accounted for 70.9% of benefits.

The most significant increases in the European Union were in Ireland<sup>12</sup> (11.7% per annum, this value being affected by the increase of 42% between 2001 and 2002), Romania (9.6%, with an increase of 22% in 2006), Hungary<sup>13</sup> (7.8% per annum and 17% between 2001 and 2002) and Cyprus (6.7%). The average increase in benefits was small in Germany (0.5%, this average value being affected by the reduction introduced in 2004), Italy (1.6%), the United Kingdom (1.9% - there was a reduction in benefits between 2000 and 2002) and,

outside EU, Switzerland (1.8%).

With an increase of 3.7% per annum in real terms between 2000 and 2006 for the EU-25 as a whole, spending on the **sickness/health** care function rose quite rapidly compared to expenditure on other functions over the same period. The acceleration observed since 2000 marks a general trend for the European Union, with the exception of the decrease recorded in Slovakia (-0.7%) and Germany (-0.1%), as both countries were affected by the reduction of expenditure on such benefits in 2002-2004, and the low positive indices of Austria and Sweden. Between 2000 and 2006 the largest increases were in Romania<sup>14</sup> (16.8%), Latvia (16.0%) and Ireland (10.2% on average; the highest increase was recorded, at the beginning of the period under review).

**Disability** expenditure increased steadily in the EU-25 over the period 2000-2006 (1.7% per annum on average). Disability pensions accounted for the largest share of this expenditure (48.4% of the total in 2006). However, entitlement conditions varied enormously from country to country. This form of expenditure showed the biggest increase (over 10%) in Estonia<sup>15</sup> (14.5%), Ireland (10.5%), Cyprus (10.3%) and Lithuania (10.2%, where increasing rates had begun as early as 2003). On the other hand, in Portugal (due to the reduction recorded between 2003 and 2005), Italy and Finland, expenditure rose by only a small amount, i.e. less than 2%. Expenditure actually decreased in Poland (a steady fall from 2002), Belgium (down 23% between 2002 and 2003), the Netherlands<sup>16</sup>, Austria and Germany (with both of the latter countries experiencing a steady reduction from 2004).

Expenditure on **family/children** benefits increased by 2.1% in real terms between 2000 and 2006. This increase is not linked to a rise in the number of children, since the population aged between 0 and 19 years fell by 3.9% between January 2000 and January 2006. In fact, cash family benefits accounted for about 70.2% of total benefit expenditure on this function. Depending on the country, this trend is the result either of significantly higher rates or of family-friendly reforms (changes in the conditions of access, and rates or creation of new benefits). During this period, the biggest real-term increase in expenditure on family and child benefits was

<sup>12</sup> See footnote 2.

<sup>13</sup> In 2002 and only in 2002 a benefit classified as "other cash lump sum" was introduced.

<sup>14</sup> A large increase (76%) was observed between 2003 and 2004 for this function due to partiality of data for the period 2000-2003.

<sup>15</sup> New benefits were introduced in the disability function in 2001.

<sup>16</sup> As from 2004 the sickness period covered by paid sick leave necessary to be recognized as a condition of eligibility for a disability pension has been prolonged from one to two years.

in Cyprus (up by 17.7% on average and nearly 57% between 2002 and 2003<sup>17</sup>, Ireland (where reforms to the maternity and parental leave system pushed expenditure up above 11.6%), Romania (8.7%) and Estonia (8.2%). In Malta, on the other hand, expenditure on family benefits decreased in real terms throughout the period. The decline in the Maltese population between 0 and 19 years of age between January 2000 and January 2006 (-7.3%) is largely responsible for the fall in expenditure in this country.

Expenditure on **unemployment** benefits rose by 0.9% in real terms during the period 2000-2006 for EU-25. Expenditure on unemployment benefits increased most in real terms in Luxembourg (the average value of

14.1% is positively affected by the especially high and increasing rates recorded between 2000 and 2004) and Portugal (11.7% depending largely on the increasing rates between 2001 and 2003). Percentages outside the EU, namely in Switzerland and Iceland, were also high. Expenditure decreased in Romania, Slovakia, Denmark, Poland, Germany, Slovenia and, to a lesser extent, also in Sweden and the United Kingdom. In most of these cases, the patterns observed for the year-on-year growth rates were in line with the trend of the unemployment rate, but these rates could equally be affected by changes in the amounts and allowances paid, or by changes in the eligibility rules.

**Table 4: Social benefits at constant prices, annual average growth for 2000-2006**

	Old-age and survivors	Sickness/Health care	Disability	Family / Children	Unemployment	Housing and social exclusion	Total benefits
EU 27	:	:	:	:	:	:	:
EU 25	2.3	3.7	1.7	2.1	0.9	4.1	2.6
EU 15	1.9	3.6	1.7	2.0	0.9	4.2	2.5
EA 15	2.2	2.8	1.1	1.8	1.2	5.1	2.3
BE	5.2	5.1	-2.1	0.2	4.3	5.6	4.1
BG	:	:	:	:	:	:	:
CZ	3.9	4.4	5.8	2.1	2.7	2.6	4.0
DK	2.3	3.5	6.2	2.4	-3.9	-0.1	2.4
DE	0.5	-0.1	-0.5	-0.1	-3.4	10.2	0.2
EE (2)	7.8	7.4	14.5	8.2	1.8	-8.9	7.8
IE	11.7	10.2	10.5	11.6	6.0	7.1	10.3
EL	5.7	6.5	4.7	1.9	0.1	2.1	5.1
ES	3.4	5.7	3.4	7.5	6.1	10.8	4.7
FR	3.0	3.7	3.6	2.0	2.3	1.5	3.0
IT	1.6	3.5	1.9	5.2	5.3	9.3	2.3
CY	6.7	6.6	10.3	17.7	4.8	8.2	7.6
LV	2.0	16.0	4.4	5.8	5.4	5.8	5.8
LT	4.8	7.3	10.2	6.3	6.9	-6.1	6.0
LU (3)	5.0	6.4	6.2	6.8	14.1	19.1	6.4
HU	7.8	8.2	7.5	7.2	2.7	3.8	7.5
MT	4.2	2.9	4.6	-3.3	8.4	6.0	3.4
NL	3.2	5.0	-1.8	7.7	3.3	5.3	3.6
AT	2.2	1.9	-0.8	1.5	4.9	8.1	2.0
PL	5.2	4.1	-3.5	1.1	-3.5	6.6	3.4
PT	6.3	3.0	0.4	3.7	11.7	0.7	4.6
RO	9.6	16.8	9.8	8.7	-6.8	35.5	11.0
SI	3.1	3.9	2.0	1.8	-2.6	10.7	3.1
SK	4.6	-0.7	3.6	-1.0	-4.2	-8.1	1.3
FI	4.4	5.1	1.9	2.1	0.0	2.1	3.4
SE	3.4	2.4	5.5	4.6	-1.3	-0.3	3.1
UK	1.9	7.3	2.0	1.4	-0.4	3.1	3.4
IS	6.2	4.5	8.7	11.0	7.1	6.4	6.6
NO	3.6	2.5	5.8	2.8	-4.0	4.0	3.3
CH	1.8	3.6	3.9	2.2	8.3	2.5	2.8

Source: Eurostat

Notes: (1) See methodological notes for details on the method of calculation, (2) An unemployment insurance system was introduced in 2002, (3) the detailed breakdown of benefits in the unemployment and social exclusion functions has been revised as from 2001.

Expenditure at constant prices on the **housing and social exclusion** functions increased by 4.1% per annum between 2000 and 2006, making these the two most dynamic functions overall. The increase was

over 10% in Romania<sup>18</sup> (with an exceptional rise of 35.5% in the average), Luxembourg<sup>19</sup>, Spain, Slovenia and Germany.

## Cash and non means-tested benefits are the main form of benefit expenditure

Social benefits paid in cash (see methodological notes) are the main form of benefit expenditure in the European Union (see Figure 6). In 2006, cash benefits accounted for 65.6% of all social protection benefits in the EU-27

(46.2% on pensions and 19.4% on other cash benefits). They are paid out at regular intervals or as lump sums. Cash benefits had the highest share in Poland (81.5% of all benefits including 65.9% for pensions) and Cyprus

<sup>17</sup> A new benefit (Child Benefit) was introduced in 2003.

<sup>18</sup> The average value is concerning only social exclusion and the high value is affected by the introduction starting with 2002 data of a new ESSPROS scheme providing income support, its high increase between 2003 and 2004 and its relevant reduction starting from 2005.

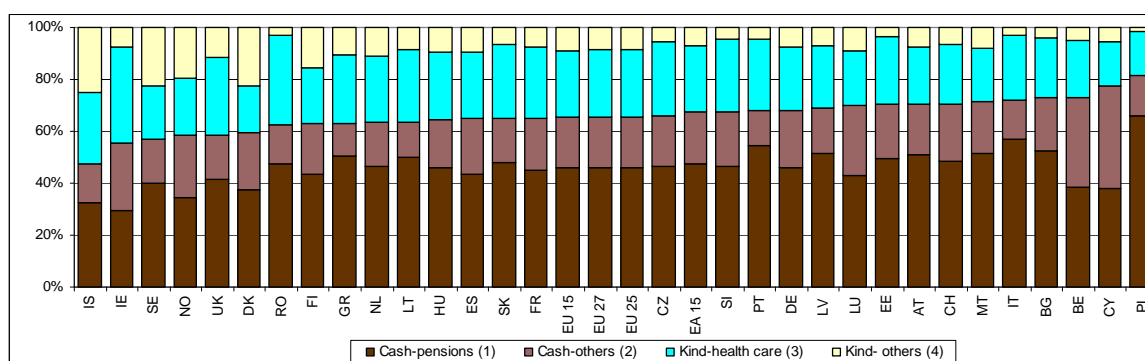
<sup>19</sup> More than doubling such expenditure between 2000 and 2001 due to the introduction within ESSPROS of two new schemes.



(77.7%, including only 37.8% for pensions). On the other hand, the highest share of benefits in kind between EU countries was recorded in Ireland (36.8% for health care benefits and 7.6% for other benefits in kind) and Sweden (42.9% for all benefits, including 20.4% for health care benefits), reflecting the greater use of services and provision of goods across all social protection functions.

Social benefits paid without means testing, as opposed to means-tested benefits (see methodological notes), are the main form of benefit expenditure in the European Union. In 2006 (see Figure 7), means-tested benefits (paid out mainly in respect of housing and social exclusion) accounted for 11.1% of all social protection benefits in the EU-27. Means-tested benefits are a significant part of social benefits in Ireland, Malta, the United Kingdom and France.

**Figure 6: Social protection benefits in cash and in kind, 2006 (as % of total social benefits)**



Note: The percentages in this graph are calculated out of data expressed in Euros

Source: Eurostat

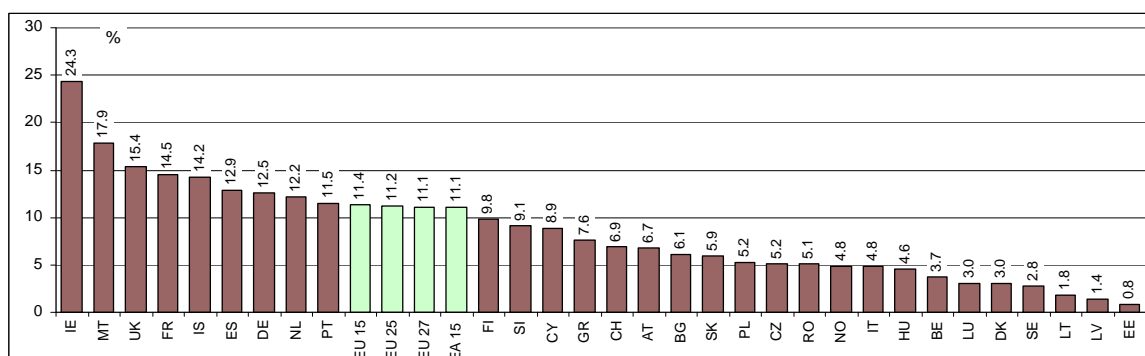
(1) Disability pension, early retirement benefit due to reduced capacity to work, old-age pension, anticipated old-age pension, partial pension, survivors' pension and early retirement benefit for labour market reasons.

(2) For example: paid sick leave, death grant, family or child allowance, unemployment benefit, income support, etc.

(3) Direct provision and reimbursement of in-patient and out-patient health care (including pharmaceutical products).

(4) Social services with accommodation, assistance with carrying out daily tasks, rehabilitation, child day care, vocational training, placement services and job-search assistance, etc.

**Figure 7: Means tested social benefits, 2006 (as % of total social benefits)**



Note: the percentages in this graph are calculated out of data expressed in Euros

Source: Eurostat

## Different systems of financing

In 2006, the main sources of funding of social protection at EU-27 level (see Table 5) were social contributions, which made up 58.9% of all receipts, and general government contributions from taxes (37.6%). Social contributions can be broken down into contributions paid by the persons protected (employees, self-employed persons, retired persons and others) and those paid by employers.

The European average for 2006 masks major national

differences in the structure of social protection funding. More than 70% of all receipts were funded by social contributions in Estonia (80.4%) the Czech Republic (80.3%) and Belgium (70.8%).

On the other hand, Denmark (62.8%), Ireland (53.2%) and the United Kingdom (50.4%) - plus Norway - financed their social protection systems largely from taxes, which accounted for over 50% of total receipts. Sweden, Cyprus, and Luxembourg were also heavily

dependent on general government funding (over 45%).

The share of other receipts (property income and other receipts) was low: 3.5% in 2006 for the EU-27. This share was well over 10%, however, in Poland, Cyprus, Greece, Romania, Portugal and the Netherlands, and also in Iceland (it refers to the receipts of occupational compulsory pension funds) and Switzerland.

These differences are historical and result from the institutional rationale that underlies social protection systems. Northern European countries, where government funding dominates, are steeped in the “Beveridgian” tradition (in this type of system, it is sufficient to be a resident in need in order to be eligible for social benefits). Other countries are strongly attached to the “Bismarckian” tradition, in which the system is

based on the insurance concept (in the form of contributions).

The structure is changing over time (with respect to the year 2000) according to different patterns. Cyprus, Hungary, Malta and the Netherlands (and Norway) increased their share of government funding; normally that meant a reduction in social contributions, which in Cyprus and Hungary was also linked to a reduction in other receipts; the exception was the Netherlands, where other receipts mainly decreased. A trade-off in favour of social contributions from government contributions was observed in the Czech Republic. The increase observed in other receipts was to the detriment of funding from tax revenue in Ireland and Slovakia and of social contributions in Poland.

**Table 5: Social protection receipts by type (as % of total receipts)**

	General government contributions		Social contributions						Other receipts	
			Total		Employers		Protected persons (1)			
	2000	2006	2000	2006	2000	2006	2000	2006	2000	2006
EU 27	:	37.6	:	58.9	:	38.2	:	20.6	:	3.5
EU 25	35.5	37.7	60.9	58.8	38.7	38.2	22.2	20.7	3.6	3.5
EU 15	35.6	38.0	60.9	58.9	38.7	38.3	22.2	20.6	3.5	3.2
EA 15	31.8	34.2	64.3	62.4	41.4	39.8	22.9	22.6	3.9	3.4
BE	25.3	27.7	72.1	70.8	49.9	49.3	22.3	21.4	2.5	1.5
BG	:	39.5	:	58.0	:	38.3	:	19.7	:	2.5
CZ	25.0	18.8	73.8	80.3	49.8	53.9	24.0	26.4	1.2	0.9
DK	63.9	62.8	29.4	30.8	9.1	11.0	20.3	19.8	6.7	6.4
DE	31.9	35.3	66.0	63.1	38.4	35.3	27.6	27.8	2.1	1.6
EE	20.6	19.5	79.2	80.4	79.2	80.1	:	0.3	0.2	0.1
IE	58.6	53.2	41.0	41.8	25.6	26.2	15.4	15.5	0.4	5.0
EL	29.2	31.4	60.8	57.7	38.2	35.1	22.6	22.6	10.0	10.9
ES	29.4	33.9	68.0	63.9	51.8	48.5	16.2	15.4	2.6	2.2
FR	30.3	30.6	65.9	65.2	46.0	44.3	19.9	20.9	3.8	4.2
IT	40.6	41.9	57.7	56.4	42.8	41.3	14.9	15.1	1.6	1.6
CY	39.9	48.1	43.0	39.1	26.6	24.0	16.4	15.1	17.1	12.8
LV	34.6	35.5	65.4	63.9	49.4	47.1	16.0	16.8	0.0	0.6
LT	38.9	38.5	59.6	61.0	53.7	54.9	5.9	6.1	1.5	0.5
LU	46.9	45.6	48.6	50.5	24.7	26.5	23.8	24.0	4.6	3.9
HU	31.6	40.6	59.7	53.8	47.0	38.6	12.8	15.2	8.7	5.7
MT	29.8	35.2	67.6	62.0	46.6	43.3	21.0	18.7	2.6	2.8
NL	14.4	20.1	67.5	69.5	29.4	31.8	38.1	37.7	18.1	10.4
AT	32.3	33.3	66.3	65.3	39.2	37.8	27.1	27.4	1.3	1.4
PL	32.5	33.3	55.3	48.0	30.5	25.9	24.8	22.0	12.2	18.8
PT	39.1	44.1	53.0	45.3	35.6	30.8	17.4	14.5	7.9	10.6
RO	:	19.6	:	69.5	:	56.3	:	13.2	:	10.8
SI	31.5	30.7	66.3	67.9	27.0	27.1	39.3	40.8	2.2	1.4
SK	31.0	25.5	66.8	65.6	48.3	44.2	18.5	21.4	2.2	8.9
FI	42.9	43.3	50.0	50.6	38.0	38.8	12.0	11.8	7.0	6.0
SE	45.9	48.9	49.9	48.7	40.4	39.9	9.4	8.9	4.3	2.4
UK	46.4	50.4	52.4	47.9	29.9	34.2	22.5	13.7	1.2	1.7
IS	51.4	31.6	48.6	30.6	39.5	24.8	9.1	5.8	:	37.9
NO	60.5	52.9	38.4	47.0	24.4	32.0	14.0	15.0	1.1	0.1
CH	21.0	22.3	60.4	62.2	29.3	28.7	31.1	33.6	18.6	15.4

(1) Employees, self-employed, pensioners and other persons.

Source: Eurostat

## METHODOLOGICAL NOTES

### Methods and concepts

The data on social protection expenditure and receipts have been drawn up according to the methodology of the European System of Integrated Social Protection Statistics: the "ESSPROS Manual 1996" has been in use until the 2007 collection, whilst the new "ESSPROS Manual" was used starting with the 2008 collection. Expenditure includes social benefits, operating expenditure and other expenditure incurred by social protection schemes. Social protection encompasses all interventions from public or private bodies intended to relieve households and individuals of the burden of a defined set of risks or needs, provided neither a simultaneous reciprocal nor an individual arrangement is involved. The ESSPROS Manual classifies social benefits under the following eight risks or needs: sickness/health care, disability, old age, survivors, family/children, unemployment, housing, social exclusion and "not elsewhere classified" (n. e. c.).

**Social benefits (gross)** are recorded without deduction of taxes or other compulsory levies payable by recipients. "Tax benefits" (tax reductions granted to households as part of social protection) are generally excluded.

A **cash benefit** is a benefit that i) is paid in cash and ii) does not require evidence of actual expenditure by the recipients. Benefits that require evidence of actual expenditure by the beneficiaries are reimbursements, which are classified as benefits in kind. Examples of cash benefits are all types of pensions, paid sick leave, parental leave benefits, family and child allowances, unemployment benefits and income support.

**Benefits in kind** are benefits granted in the form of goods and services. They may be provided in the form of reimbursement or directly. Reimbursements are payments that refund the recipients in whole or in part for certified expenditure on specified goods and services. Directly provided benefits are goods and services granted without any pre-financing by the beneficiary.

Social benefits are broken down between means-tested and non means-tested benefits.

Means-tested social benefits are social benefits which are explicitly or implicitly conditional on the beneficiary's income and/or wealth falling below a specified level.

### Calculation of indices in Tables 2 and 4

Wide annual fluctuations in conversion rates between the ECU/euro and national currencies made it necessary to use something different from an ECU/euro index for the EU-15, EU-25 and EU-27 aggregates in these tables. At national and EA-15 Level the indices are calculated out of data in national currencies. At EU-15, EU-25 and EU-27 levels, the indices are obtained from a weighted average of each country's annual index (calculated out from data in national currencies). The

weights are the composition ratios for the expenditure in each component country with respect to the expenditure of the aggregate, both expressed in ECU/euro; the expenditure of the previous year are used (for example, 2000 expenditure for the weighted index for 2001/2000, 2001 expenditure for the weighted index for 2002/2001, etc.).

### Statistical symbols and abbreviations

EU 15 comprises Belgium (BE), Denmark (DK), Germany (DE), Ireland (IE), Greece (EL), Spain (ES), France (FR), Italy (IT), Luxembourg (LU), the Netherlands (NL), Austria (AT), Portugal (PT), Finland (FI), Sweden (SE) and the United Kingdom (UK).

EU 25 includes the EU 15 countries plus the Czech Republic (CZ), Estonia (EE), Cyprus (CY), Latvia (LV), Lithuania (LT), Hungary (HU), Malta (MT), Poland (PL), Slovenia (SI) and Slovakia (SK).

EU 27 includes the EU 25 countries plus Romania (RO) and Bulgaria (BG).

EA 15 includes BE, DE, IE, EL, ES, FR, IT, CY, LU, NL, MT, AT, PT, SI and FI.

IS = Iceland, NO = Norway, CH = Switzerland.

":" indicates data not available

### Remarks concerning the data

Data for EU-25 as a whole are available from 2000.

The 2006 data are provisional for DE, ES, FR, IT, CY, LV, LT, NL, SI, SK, SE and UK. The 2006 data for EU-27, EU-25, EU-15 and EU-15 are also provisional. For Bulgaria and Romania, complete data are available only for the years 2005 and 2006. For Romania preliminary data on expenditure are also available for the period 2000-2004.

The GDP, PPS, population and consumer price index data (in national currency for households and NPISH final consumption expenditure) were extracted in October 2008. This might explain any differences from national publications.

### Legal basis

For the first time in the 2008 collection (data for 2006) ESSPROS data (modules: expenditure and receipts, qualitative information and pension beneficiaries) have been collected and disseminated according to the following legislation: 1) Regulation (EC) No 458/2007 of the European Parliament and of the Council of 25 April 2007 on the European system of integrated social protection statistics (ESSPROS). 2) Commission Regulations (EC) No 1322/2007 and No 10/2008 implementing the EP and Council Regulation.

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